The G20: A small advanced economy perspective

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1. Introduction

A common small country critique of the G20 is that it is non-representative. The G20 may account for about 85% of global GDP and about two-thirds of the world's population, but G20 membership does not directly include about 90% of the world's countries (including 25 of the 34 IMF advanced economies). Singapore, responsible for initiating the Global Governance Group in 2009 to better link the G20 with the UN, notes that "Unlike the UN, where we all have a voice, the G20 process is closed".[1]

Of course, the G20 is by definition more representative than the G7 or G8. But the concern is that the G20 – a self-styled premier global economic policy forum – regards itself as a more representative body than it actually is. Non-members worry that, over time, more of the global policy debate and decision-making that used to take place in the IMF and other multilateral institutions will instead take place at the G20. Even if the G20 continues to use these bodies as its 'operational arms', fewer of the important debates will occur there.

In this light, small countries fear that the G20 is part of a process of weakening the multilateralism that has supported the strong, rules-based process of globalisation over the past 60 years. Although the strong influence of large economies in global decision-making pre-dates the establishment of the G20, small countries were at least able to actively participate in the work of the multilateral institutions in a way that they now feel is at risk.

However, although the traditional multilateral institutions are formally more inclusive than the G20, they are also increasingly struggling for effectiveness. Global negotiations on climate change and trade are stalled. The world needs effective global economic governance, which will likely require a limited group of countries. So although the G20 is not fully inclusive it does at least offer the prospect of more effective global economic governance. As many have noted, if the G20 didn't already exist something like it would need to be created.

The fundamental problem is that trading off inclusiveness for effectiveness only works if the G20 is in fact effective. But small countries can reasonably point to concerns about both the *effectiveness* and the *legitimacy* of the G20's operations. The G20 is struggling to deliver impact after the immediate crisis response, its expanding membership and agenda makes its position relative to existing organisations unclear, and the G20's policy behaviour collectively and among member countries is not always consistent with a global leadership role.

The deep exposure of small countries to the global economy means that these issues affect their vital national interests. This note describes some possible responses that would go some way to addressing these small country concerns about the effectiveness and legitimacy of the G20.

[1] *Statement by Ambassador Vanu Gopala Menon, Permanent Representative of Singapore to the United Nations, on behalf of the Global Governance Group, 29 June 2010.*

2. How has the G20 performed to date?

The G20 got off to a high-profile start with its response to the global financial crisis. Announcements of stimulus and of policy resolve were made, which had an impact in terms of stabilising sentiment (even if many of the actual policy decisions would likely have happened anyway).

However once the immediate crisis passed, the differences in interest and perspective among G20 members made it difficult to achieve a consensus on meaningful issues (such as guidelines on external balances).[2] Although useful contributions have been made to increase the IMF's resourcing, little of policy substance has happened. It has been argued that we have a G-Zero rather than a G20, with no effective global leadership.[3] In fairness, this is not a criticism that is unique to the G20 with other international groupings not making much progress either.

Another issue that is increasingly apparent is the unclear nature of the G20 agenda. The agenda has been expanded, many initiatives launched, and the Summit hosts often use an ambitious agenda as a national branding exercise. The Summits are also frequently overtaken by fire-fighting. For example, the wide-ranging substantive agenda at the Cannes Summit was dominated by the Eurozone crisis. This agenda creep dilutes the impact of the G20.

In addition, the G20 has experienced membership creep – growing from the initial 20 members to 35 countries and regional or international organisations in attendance at the 2012 Summit in Mexico.[4] Not only does this large participant list, combined with an expanding agenda, compromise the effectiveness of the G20, it also makes the G20 look less like a complement to the existing multilateral institutions and more like a substitute (increasing the concerns of the small countries). Increasingly, the G20 has the worst of both worlds, facing many of the same issues with respect to effective decision-making as the multilateral institutions but without the organisational legitimacy that these institutions have.

3. What problems does the G20 now face?

In addition to the failure to deliver much beyond the immediate crisis response, there is a concern that G20 members are not offering the leadership that is required. And particularly, that some G20 economies are contributing to the serious problems now facing the global economy; variously accumulating imbalances, running overly loose macro policy, not dealing with serious structural issues, and engaging in protectionist activities.

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[2] *Gideon Rachman, The G20's seven pillars of friction. Financial Times, 8 November 2010. Jean Pisani-Ferry, G20: Decreasing returns. In Bruegel, 16 May 2012: http://www.bruegel.org/nc/blog/detail/article/777-g20-decreasing-returns/. Ignazio Angeloni and Jean Pisani-Ferry, The G20: Characters in search of an author. Bruegel Working Paper 2012/04. Brussels, Bruegel Institute, March 2012.*

[3] *Ian Bremmer, Every nation for itself: Winners and losers in a G-zero world. New York, Portfolio Penguin, 2012*

[4] *Stephen Grenville, One G to rule the world. In The Interpreter, 9 October 2012: http://www.lowyinterpreter.org/post/2012/10/09/One-e28098Ge28099-to-rule-the-world.aspx*

One way to think about these policy settings in large economies is in terms of the parallels with the 'too big to fail' financial institutions. As is the case with large financial institutions, large economies do not internalise the full costs of their policy decision-making on others (such as loose monetary policy that has an impact on other economies); are somewhat insulated from market pressures (the US is regarded as a safe haven despite its public debt load); and are more likely to receive official support when they encounter problems (e.g. the IMF in the Eurozone).

Although the G20 economies provide a valuable engine of demand as the largest spenders in the global economy, and although some also provide liquidity through issuing reserve currencies, substantial global risk exposures can be created when these economies pursue unsustainable policies. And arguably, we have moved from a situation in which large economies provided ballast in the global economy, stabilising it and managing risks, to a situation in which this weight is breaking loose and is acting as a destabilising force.

As noted in the IMF Spillover Reports, there are concerns about the cross-border effects of the Eurozone crisis, the short-term fiscal cliff and structural fiscal imbalances in the US, the aggressive monetary easing in many developed economies, and the risks of a hard landing in China. Large economies are increasingly a source of systemic risk, which may compromise the performance of the global economy. The deep exposure of small economies to the global economy means that the global risks created by G20 economies are of particular concern to them.

Given the 'too big to fail' parallels, some of the proposals to constrain the risk profile of systemically important financial institutions are likewise relevant to the G20 debate. Although large countries are clearly not about to break themselves up for this reason, global risk can be reduced through more conservative policy settings – and a greater focus on structural reform – in the systemically important large economies. Large countries should face some pressure to consider the impact of their policies on other countries.

In other policy areas, such as trade, G20 members like Argentina are not acting as global leaders. Of course, there is variation in performance across the G20; countries like Australia, Germany and South Korea, for example, tend to exert a positive force. But there is room for improvement across the G20.

4. What should the G20 do next?

So from a small country perspective, the G20 has a mixed record of achievement as well as an unclear agenda and ambition. And the G20, individually and collectively, is not acting in a way fully consistent with its global leadership role. But the importance of a functioning G20 remains – the world needs effective global economic governance.

There are some steps that can be taken to address these issues, within the constraints of the current international environment, and to make the G20 more effective and legitimate. Specifically, here are three ideas from a small country perspective for strengthening the G20.

- Focused agenda and membership

For the G20 to play a forceful global economic governance role, it needs to be organised appropriately. The G20 agenda should be sharper and focused only on those economic and financial issues on which it can make a distinctive contribution; for example, managing major systemic economic risks, international economic policy coordination, and discussing the possible shape of a global trade deal.

There should be particular clarity on how the G20 relates to existing institutions such as the IMF or the WTO. To the maximum extent possible, the G20 should act to strengthen the existing multilateral institutions and to make them more effective. Such clarity would contribute to the effectiveness of the G20 by better focusing its efforts (and managing expectations), as well as building the G20's legitimacy among non-G20 members.

The need for clarity extends to G20 membership, which has expanded substantially. The G20 should be restricted to those countries or regions that are systemically important and are making a positive contribution to an open, stable global economy. Twenty should be an absolute maximum for membership, not a starting point. Again, this would make the G20 more effective and strengthen its legitimacy by making it clear that the G20 is a limited group of systemically important economies.

- Independent accountability process

Given their self-appointed role, it is reasonable for the rest of the world to expect that G20 members behave as responsible stewards of the global economy; to contribute to global growth and stability and to an open global system. They should also be accountable for their individual policy behaviour. Such accountability would help address the G20's credibility gap with small countries.

There are existing accountability mechanisms through the G20's Mutual Assessment Process, in which the IMF reports on whether "policies pursued by individual G20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy". Several reports have been prepared, and the accountability mechanisms are being adapted over time. However, this process is owned by the G20 members and has not been particularly hard-hitting or led to significant changes in policy behaviour.[5]

Greater accountability could be achieved by coupling the existing accountability mechanism with an independent assessment of the G20 by a group of other countries. Small countries could play a valuable role in this respect, providing independent judgement on whether the G20 group – and individual G20 members – are playing their expected role. Indeed, the acute exposure of small countries to the global economy – and their deep stake in its effective functioning – means that small countries are well-placed to make such an independent assessment, and may identify issues that G20 members do not focus on.

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[5] *Pisani-Ferry, G20: Decreasing returns. Ignazio Angeloni, The G20 should rise to the challenge (but probably won't). In Bruegel, 12 June 2012: http://www.bruegel.org/nc/blog/detail/article/813-the-g20-should-rise-to-the-challenge-but-probably-wont/*

To the extent that G20 members are acting responsibly, it will help with the effectiveness of the G20 in achieving better outcomes – and also with its legitimacy. Realistically, it is difficult to imagine sanctions being attached to this process, but an independent accountability process would still provide a useful discipline.

- Active, structured external engagement

Although the G20 members account for much of global GDP, they do not have a monopoly on policy wisdom – and they need to be open to other ideas and perspectives. Indeed, a limited group like the G20 faces an expectation that it will be open to the ideas of others.

Insights from small countries with respect to the global economy are particularly valuable because they have a deep sense of the emerging global challenges and opportunities – and the types of policy responses that might be appropriate. Indeed, many of the strongest performers in the global economy, and the countries with sustained records of policy innovation, are the small advanced economies. This experience means that small countries will be able to provide distinctive perspectives on the priority items in the focused G20 agenda, as well as insights on how large economies can respond effectively to globalisation.

To the extent that small countries organise themselves coherently around well-developed, insightful perspectives on the G20 agenda, there should be an opportunity to shape the G20 agenda and discussions. Practically, this can be done through a stepped-up version of current G20 engagement efforts. The current outreach efforts occur in a variable way, depending on the G20 chair and the attitudes of specific G20 members. To improve this, there should be a structured process of active engagement with the group of high-performing, innovative small countries that is more than a compliance exercise in stakeholder management.

Small countries will achieve more by investing in developing valuable ideas and perspectives than by arguing for greater representation. And the G20 will benefit from the insights of small countries that are performing well, have a record of policy innovation, and have a deep stake in the health of the global economy.

5. Concluding remarks

The ideas offered in this note are aimed at strengthening the G20's ability to contribute to effective, legitimate global economic governance. Rather than focusing on issues of representation at the G20, the proposed actions target a streamlined G20 membership that has a clear view on how and where it can make a distinctive contribution; that is willing to be held accountable for its behaviour and performance by independent countries; and that adopts an active, structured approach to engaging with credible countries to seek perspectives on priority agenda items and insights on appropriate policy responses. Small countries have an important contribution to make on all of these proposed areas of reform.

Although these changes do not address the substantial differences in interests and perspectives among key G20 members that make collective action difficult to achieve, they will make a positive contribution to the effectiveness and legitimacy of the G20. This is in the vital national interest of small countries, and small countries should be actively engaged in this process.

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About the author

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About Landfall Strategy Group

Landfall Strategy Group is a Singapore-based research and advisory firm that provides distinctive perspectives on the shape of the emerging global economic and political environment. The foundation for our work is an understanding of the position and experience of small developed countries in the global environment. The underlying beliefs are that small countries face distinct strategic challenges and opportunities, which required targeted analysis and advice; and that small countries provide insightful perspectives on the global context.

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